

AR31



Canadian Hidrogas Resources Ltd.
1973 Annual Report

Canadian Hidrogas Resources Ltd.

Highlights:

	1973	1972
Gross operating revenues	\$7,648,000	\$5,728,000
Cash flow from operations	541,000	(116,000)
Net earnings (loss):		
Before extraordinary items	249,000	(126,000)
Total	400,000	(126,000)
Per common share:		
Cash flow from operations	23.1c	(5.0c)
Net earnings (loss):		
Before extraordinary items	10.7c	(5.4c)
Total	17.1c	(5.4c)

Directors:

Evan W. G. Bodrug — Calgary
Arthur F. Coady — Calgary
Robert C. Jeal — Calgary
Henry W. Klassen — Calgary
Benjamin J. McConnell — Vancouver

Officers:

Evan W. G. Bodrug — President
Noah Cohen — Vice President
M. Laurence Steer — Treasurer
Arthur F. Coady — Secretary
Robert C. Jeal — Controller

Head Office:

Suite 1000
610 - 8th Ave. S.W.
CALGARY, ALBERTA T2P 1G5

Transfer Agent:

National Trust Company Limited

Bank:

Bank of Montreal

Auditors:

Deloitte, Haskins & Sells — Calgary

Shares Listed:

Vancouver Stock Exchange
Calgary Stock Exchange

Share Symbol:

CHS

President's Report

1973 ANNUAL REPORT

To the Shareholders:

We are pleased to present to you our report for the fiscal year ended August 31, 1973. The results of this year have been highly satisfactory, with operating revenues increasing 33% and operating income exceeding \$530,000, an increase of \$662,200 over the previous year. In addition, an extraordinary gain of \$150,000 was realized, providing net income, before other charges and deferred tax provisions, of \$680,000 or 29 cents per share.

Many factors have contributed to the success of this past year, several of which will continue to contribute significantly to our growth and stability. Most significant is the sense of immediacy of energy requirements which has served to stabilize our propane and butane wholesaling operation. As a result of this energy demand your Company has adjusted much of its marketing strategy accordingly, which now permits a more stable marketing operation and should eliminate, to a large degree, the seasonality of demand of former years. Further, because of the years of exposure to the propane and butane markets of North America, your Company is now being recognized more and more as a marketing vehicle for these products. This is particularly evidenced by long term contracts with companies which are basically orientated toward production and do not have their own propane and butane marketing departments.

During the past year your Company continued to investigate possible acquisitions of oil and gas producing properties, which resulted in the acquisition of all the assets of NIR Oil Limited just prior to year end. This will contribute to our present production of both oil and gas. Among the properties acquired was a net interest of 4,500 acres in a total of 43,000 gross acres in a highly active gas prone area of Saskatchewan where discovery wells have been drilled.

Subsequent to year end, your Company acquired a 100% working interest in 7,600 acres in the Lloydminster area of Alberta. This area is underlain by vast quantities of heavy oil with estimated oil in place of approximately 20,000 barrels per acre. While in the past the recovery percentages have been very low, experience and continued technological developments have permitted an ever increasing degree of recoverable oil. It is managements' opinion that because of the known volumes of heavy oil existing in Alberta and the prevailing energy shortages, more and more attention will be given to technological methods of increased recovery and as a result your Company will enjoy the long term benefits of continued production.

On behalf of the Board of Directors we wish to express our appreciation to all of our employees and assure our shareholders that we are conscious of their interests.

Respectfully submitted,

A handwritten signature in blue ink, reading "Evan Bodrug". The signature is fluid and cursive, with a horizontal line underneath the name.

Evan Bodrug
President

CANADIAN HIDROGAS RESOURCES LTD.

Consolidated Statement of Source and Application of Funds

For The Year Ended August 31, 1973 (with comparative figures for 1972, Note 1)

	1973	1972
		(Restated)
FUNDS PROVIDED:		
Net income (loss) for the year	\$ 399,842	\$ (126,260)
Depreciation	9,002	8,708
Depletion	1,152	1,123
Deposits on tank car rentals written off	149,913	—
Deferred income taxes	71,000	—
Financing costs written off	60,600	—
Gain on sale of shares of subsidiary company	(150,447)	—
Funds provided from (used in) operations	541,062	(116,429)
Proceeds from sale of shares of subsidiary company	151,247	—
Sale of petroleum and natural gas properties to an unconsolidated subsidiary	—	172,248
Proceeds from sale of land, rights and permits	—	100,000
Increase in long-term debt	530,000	—
Total funds provided	1,222,309	155,819
FUNDS APPLIED:		
Advances to affiliated and unconsolidated subsidiary companies	—	168,783
Acquisition of gas, oil and mineral interests	584,419	17,491
Additions to equipment	4,350	667
Deposits on tank car rentals	74,535	204,962
Deferred expenses	36,575	13,684
Financing costs	1,683	58,917
Payment of prior years' income taxes	—	23,475
Paid or payable on long-term debt	162,271	20,160
Total funds applied	863,833	508,139
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	358,476	(352,320)
(DEFICIENCY) WORKING CAPITAL AT BEGINNING OF THE YEAR:		
As previously reported	(263,831)	26,809
Retroactive adjustment for subsidiaries now consolidated (Note 1)	89,629	(1,454)
8% Note receivable reclassified to current assets	10,929	—
Deferred tank car rentals payable reclassified to current liabilities	(163,692)	—
As restated	(326,965)	25,355
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR	\$ 31,511	\$ (326,965)

The accompanying notes are an integral part of the consolidated financial statements.

CANADIAN HIDROGAS RESOURCES LTD.

Consolidated Statement of Retained Earnings

For The Year Ended August 31, 1973 (with comparative figures for 1972, Note 1)

	1973	1972
		(Restated)
DEFICIT AT BEGINNING OF THE YEAR:		
As previously reported	\$ (107,603)	\$ (609,715)
Retroactive adjustment for deficit of subsidiary now consolidated (Note 1)	(1,701)	(1,454)
As restated	(109,304)	(611,169)
ADJUSTMENT OF PRIOR YEARS' INCOME TAXES	—	(23,475)
	(109,304)	(634,644)
NET INCOME (LOSS) FOR THE YEAR	399,842	(126,260)
	290,538	(760,904)
CREDIT ARISING FROM SURRENDER OF SHARES	—	651,600
RETAINED EARNINGS (DEFICIT) AT END OF THE YEAR . . .	\$ 290,538	\$ (109,304)

The accompanying notes are an integral part of the consolidated financial statements.

CANADIAN HIDROGAS RESOURCES LTD.

Consolidated Statement of Income

For The Year Ended August 31, 1973 (with comparative figures for 1972, Note 1)

	1973	1972
		(Restated)
SALES AND OPERATING REVENUE	<u>\$7,647,893</u>	<u>\$5,727,523</u>
EXPENSES:		
Cost of sales and operating expenses	<u>6,577,732</u>	5,510,157
Selling, general and administrative expenses	<u>494,507</u>	296,242
Interest — long-term	<u>13,440</u>	15,351
— short-term	<u>31,306</u>	37,217
Total expenses	<u>7,116,985</u>	<u>5,858,967</u>
INCOME (LOSS) FROM OPERATIONS	<u>530,908</u>	<u>(131,444)</u>
OTHER CHARGES:		
Deposits on tank car rentals written off (Note 5)	<u>149,913</u>	—
Financing costs written off	<u>60,600</u>	—
Total other charges	<u>210,513</u>	—
INCOME (LOSS) BEFORE INCOME TAXES	<u>320,395</u>	<u>(131,444)</u>
INCOME TAXES — deferred (Note 10)	<u>71,000</u>	—
— recovery	<u>—</u>	<u>(5,184)</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	<u>249,395</u>	<u>(126,260)</u>
GAIN ON SALE OF SHARES OF SUBSIDIARY COMPANY (Note 3)	<u>150,447</u>	—
NET INCOME (LOSS) FOR THE YEAR	<u>\$ 399,842</u>	<u>\$ (126,260)</u>
EARNINGS (LOSS) PER SHARE (Note 15):		
Income (loss) before extraordinary item	<u>10.7 c</u>	<u>(5.4 c)</u>
Net income (loss) for the year	<u>17.1 c</u>	<u>(5.4 c)</u>

The accompanying notes are an integral part of the consolidated financial statements.

Auditors' Report

To the Shareholders of
Canadian Hidrogas Resources Ltd.:

We have examined the consolidated balance sheet of Canadian Hidrogas Resources Ltd. as at August 31, 1973 and the consolidated statements of income, retained earnings, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the ultimate recovery of deposits on tank car rentals described in Note 5, these consolidated financial statements present fairly the financial position of the companies as at August 31, 1973 and the results of their operations and source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for deposits on tank car rentals described in Note 5, have been applied, after giving retroactive effect to the change in the method of accounting for investment in wholly-owned subsidiaries described in Note 1, on a basis consistent with that of the preceding year.

Calgary, Alberta
November 20, 1973

DELOITTE, HASKINS & SELLS
Chartered Accountants



CANADIAN HIDROGAS RESOURCES LTD.

Consolidated Balance Sheet

As at August 31, 1973 (with comparative figures for 1972, Note 1)

Assets	1973	1972
		(Restated)
CURRENT ASSETS:		
Cash	\$ 108,049	\$ 3,678
Accounts receivable:		
Trade	991,489	577,336
Due from unconsolidated subsidiary company	—	81,647
Officers and directors	12,822	6,668
Inventory — at the lower of average cost or net realizable value	322,065	462,716
Corporation income taxes	3,815	8,664
Prepaid expenses and deposits	29,669	14,921
Marketable securities (market value \$189,938) (Note 3)	151,247	—
Total current assets	1,619,156	1,155,630
PROPERTY AND EQUIPMENT — at cost (Note 4):		
Gas, oil and mineral interests	705,248	94,898
Transportation equipment and other assets	214,860	210,511
	920,108	305,409
Less accumulated depletion and depreciation	44,088	33,935
Net property and equipment	876,020	271,474
OTHER — at cost:		
Deferred tank car rentals	—	163,692
Deposits on tank car rentals (Note 5)	154,645	66,331
Financing costs	—	58,917
Deferred expenses	50,259	13,684
Investment in, advances to and receivable from affiliated companies and unconsolidated subsidiary (Note 6)	620	173,668
Excess cost of shares acquired over net assets of subsidiary at date of acquisition	252,771	252,771
Total other assets	458,295	729,063
TOTAL	\$2,953,471	\$2,156,167

The accompanying notes are an integral part of the consolidated financial statements.

Liabilities and Shareholders' Equity	1973	1972
		(Restated)
CURRENT LIABILITIES:		
Bank indebtedness (Note 7)	\$ 111,000	\$ 548,886
Accounts payable and accrued liabilities	1,279,601	749,857
Current portion of long-term debt	162,271	20,160
Due to affiliated company	34,773	—
Deferred tank car rentals payable	—	163,692
Total current liabilities	<u>1,587,645</u>	<u>1,482,595</u>
DEFERRED INCOME (Note 8)	<u>—</u>	<u>146,317</u>
LONG-TERM DEBT — less current portion included in current liabilities (Note 9)	<u>491,041</u>	<u>123,312</u>
DEFERRED INCOME TAXES (Note 10)	<u>71,000</u>	<u>—</u>
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized:		
5,000,000 common shares with a par value of \$1 each		
Issued and fully paid (Note 11):		
2,339,402 shares	513,247	513,247
Retained earnings (deficit)	<u>290,538</u>	<u>(109,304)</u>
Total shareholders' equity	<u>803,785</u>	<u>403,943</u>
Approved by the Board:		
 Director		
 Director		
TOTAL	<u><u>\$2,953,471</u></u>	<u><u>\$2,156,167</u></u>

CANADIAN HIDROGAS RESOURCES LTD.

Notes to the Consolidated Financial Statements

August 31, 1973

1. CHANGE IN ACCOUNTING PRACTICE:

Comparative figures for 1972 have been restated from those previously reported to reflect the accounts of Pet Chem Distributing Ltd. and Hidrogas Inc. (inactive) on a consolidated basis. These subsidiaries had previously been accounted for on the equity method and cost method respectively.

2. PRINCIPLES OF CONSOLIDATION:

These financial statements include the accounts of the parent company and those of its' wholly-owned subsidiaries, Hidrogas Limited, Pet Chem Distributing Ltd. and Hidrogas Inc. (inactive).

3. MARKETABLE SECURITIES:

During the year the company sold an 80% interest in its wholly-owned subsidiary, Hidrogas Incorporated, for 101,500 shares of the purchaser. Of the 101,500 shares, 5,500 shares valued at \$29,562 were received on closing and 96,000 shares were placed in escrow subject to earnout based on the subsidiary's earnings during the period January 1, 1973 to December 31, 1975.

Of the 96,000 shares in escrow, the company has earned, subject to year-end audit of the former subsidiary, 22,639 shares valued at \$121,685.

4. PROPERTY AND EQUIPMENT:

Depletion and depreciation of gas, oil and mineral interests are computed by the unit of production method based upon the total estimated recoverable reserves as determined by independent engineers.

Depreciation of transportation equipment and other assets is computed under the declining-balance method at rates of 4% and 20%, respectively.

The total amount so provided for the year was \$10,154 (1972 — \$9,831).

5. DEPOSITS ON TANK CAR RENTALS:

Deposits on tank car rentals represent the excess of rentals paid for tank cars over mileage credits earned. Mileage credits earned on tank cars in excess of tank car rentals paid in future periods may be applied back against tank car deposits of previous periods.

The company has determined that all deposits on tank car rentals may not ultimately be recovered in future periods by mileage credits and accordingly has adopted the policy that all deposits over two years old will be charged to operations.

As a result of this change in accounting policy, tank car deposits in the amount of \$149,913 relating to the years 1971 and 1970 have been written off during the year.

6. INVESTMENT IN, ADVANCES TO AND RECEIVABLE FROM AFFILIATED COMPANIES AND UNCONSOLIDATED SUBSIDIARY:

	<u>1973</u>	<u>1972</u>
Affiliated companies:		
Pet Chem Manufacturing Ltd. — shares at cost	\$ 50	\$ 50
Pet Chem Manufacturing Ltd. — advances	370	370
Hidrogas Incorporated — shares at cost	200	—
	<u>620</u>	<u>420</u>
Unconsolidated subsidiary (Note 3):		
Hidrogas Incorporated — shares at cost	—	1,000
— receivable on sale of petroleum and natural gas properties	—	172,248
	<u>\$ 620</u>	<u>\$173,668</u>

7. BANK INDEBTEDNESS:

Bank loans are secured by an assignment of accounts receivable and certain inventories and marketable securities.

8. DEFERRED INCOME:

During the previous year the company sold certain non-producing petroleum and natural gas properties to its wholly-owned subsidiary, Hidrogas Incorporated for a total consideration of \$172,248. The gain of \$146,317 on this sale was deferred pending payment. Under the terms of the sale agreement, the company had the right to reacquire the properties if the subsidiary was sold. Subsequent to the sale of the subsidiary (Note 3), the company elected to reacquire the properties.

9. LONG-TERM DEBT:

During the year the company acquired certain producing petroleum and natural gas properties for a total consideration of \$563,750. Of this amount, \$33,750 is payable in cash, \$125,000 is payable out of the proceeds of a production loan received subsequent to the year end and the balance of \$405,000 by way of a non-interest bearing mortgage payable.

The production loan bears interest at 1½% above prime and is to be retired within three years. The mortgage is to be repaid in annual instalments commencing July 1, 1974 with a payment of \$80,000 decreasing to a final payment of \$54,000 July 1, 1979. The above properties have been pledged as collateral, firstly to the production loan and secondly to the mortgage.

At August 31, long-term debt consists of the following:

	<u>1973</u>	<u>1972</u>
12% Note payable, maturing 1975, repayable at \$2,800 per month including interest, secured by certain equipment with a net book value of \$178,101	\$123,312	\$143,472
On acquisition of properties referred to above:		
— account payable	125,000	—
— mortgage payable	405,000	—
	<u>653,312</u>	<u>143,472</u>
Less current portion	<u>162,271</u>	<u>20,160</u>
	<u>\$491,041</u>	<u>\$123,312</u>

10. INCOME TAXES:

For income tax purposes the companies are entitled to claim capital cost allowance and drilling and exploration costs in excess of the related depreciation and depletion provisions charged against income. As well, a subsidiary company has claimed certain other expenses for tax purposes in excess of those charged against income and has provided for deferred income taxes of \$71,000 on such amounts. Another subsidiary company has a tax loss of approximately \$100,000 which may be utilized until 1978 to reduce future taxable incomes.

The companies do, however, follow the general practice in the oil and gas industry and do not provide for income taxes deferred as a result of amounts claimed for acquisition, drilling and exploration costs in excess of those recorded in the accounts. If the tax allocation basis had been followed for all timing differences between taxable income and reported income, additional deferred income taxes of approximately \$127,000 (1972-Nil) would have been provided and net income reduced accordingly, which amount represents accumulated income tax reductions relating to all timing differences to date. At August 31, 1973, expenditures of approximately \$380,000 remain to be carried forward and applied against future taxable incomes.

11. CAPITAL STOCK:

Details of issued capital stock are as follows:

	Number of Shares	At Par of \$1	Discount	Net
For cash	567,002	\$ 567,002	\$ 423,655	\$143,347
For shares of subsidiary- Hidrogas Limited	1,700,000	1,700,000	1,402,500	297,500
	2,267,002	2,267,002	1,826,155	440,847
For mineral claims	750,000	750,000	—	750,000
Less shares surrendered and cancelled	677,600	677,600	—	677,600
	72,400	72,400	—	72,400
	<u>2,339,402</u>	<u>\$2,339,402</u>	<u>\$1,826,155</u>	<u>\$513,247</u>

Of the 1,700,000 common shares issued for the acquisition of Hidrogas Limited, 935,000 are held in escrow under the control of the Alberta Securities Commission and the Calgary Stock Exchange. The company has reserved 100,000 shares for issuance to officers and employees under a stock option plan. Options in respect of these 100,000 shares have been granted at a price of \$1 per share and may be exercised to acquire up to 20% of the total shares under option on a cumulative basis until August 15, 1977 on 65,000 shares and to May 1, 1979 on 35,000 shares. No options have been exercised to date.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Remuneration of directors and senior officers of the company amounted to \$38,800 for the year (1972 — \$36,300).

13. CONTINGENT LIABILITIES AND COMMITMENTS:

- a) the company has guaranteed the bank loan of a third party in the amount of approximately \$40,000.
- b) the company may be liable for certain charges for the use of U.S. tank cars in Canada; the total liability will not exceed \$10,500 per year. The company has entered into a five year lease until 1977 for these tank cars at an annual rental of \$147,000.

14. SUBSEQUENT EVENTS:

- a) the company has purchased producing and non-producing petroleum and natural gas properties for a total consideration of \$1,900,000 (cash of \$1,700,000 and 200,000 treasury shares). For this purpose, the company has secured a production loan in the amount of \$1,400,000 at an interest rate of $1\frac{1}{2}\%$ above prime; repayment terms of the loan are presently being negotiated.
- b) the company has entered into a lease agreement for office premises for three years with an option for an additional two years at an average annual rental of approximately \$28,000.

15. EARNINGS (LOSS) PER SHARE:

Earnings (loss) per share has been calculated on the average number of shares outstanding during the year. Potential dilutive factors have no significant effect on earnings per share.



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